

25 July 2024

The European Commission recently announced the imposition of provisional anti-subsidy duties on imports of battery electric vehicles from China. It has also launched a number of other investigations into Chinese practices using the EU's enlarged defensive toolbox. Meanwhile, China has initiated anti-dumping investigations into European exports, including brandy, pork and polyoxymethylene copolymer. These developments bear an increased risk of escalating trade tensions between the EU and China.

While a successful and effective green transition should be achieved through fair competition and the EU must take appropriate measures to safeguard European industry, it is vital to avoid an escalation of punitive actions between the EU and China. In this context, the following points set out ERT's key recommendations for a strong and balanced EU-China economic relationship.

1. **Strong economic relations between the EU and China**, including flows of goods, services and investments, are critically important for European businesses. For decades, European companies have thrived in China and have contributed to China's economic success. They have a strong shared interest in China's continued success and mutually beneficial economic relations.
2. It is crucial for the EU to show decisiveness and unity towards China, and thus to develop a **coherent long-term European strategy** that is adapted to today's rapidly changing geopolitical context. Avoiding divergent positions among Member States is key to ensuring a **constructive dialogue** between the EU and China on opportunities and challenges in bilateral economic matters as well as global challenges such as climate change and the digital and green transitions. This dialogue needs to be strengthened as a matter of urgency. The EU and China need a joint pathway for a healthy trading relationship, which should swiftly deliver substantive positive outcomes. **Consultation with European businesses** must be a central and ongoing part of any effort.
3. The foundation of the EU-China economic relationship must be **fair competition with a level playing field** between European and Chinese companies in each other's and in third markets. European companies continue to face market access restrictions, systemic challenges and unfair treatment in China, and experience consequences of Chinese distortions in third markets. Despite official announcements aimed at improving the business environment in China, national security-focused legislation and the drive towards self-reliance and import substitution under 'Made in China 2025' deepen uncertainty and raise compliance risks for European companies.
4. Weak domestic demand in China is of concern as **Chinese goods are increasingly saturating the European market** and challenge domestic industry. Structural reforms in China will therefore be key. Europe strives to be an industrial leader in the twin transition and has legitimate concerns related to its economic resilience, supply chain vulnerabilities, and the long-term viability of its industrial base in critical sectors.

5. **Market liberalisation** in China would provide opportunities to restore business confidence, attract foreign investments and achieve sustainable economic growth. It would also enable China to focus on its comparative advantages in international trade and thus help reduce systemic overcapacities.
6. Safeguarding **open and fair trade and investment** in a rules-based global system is preferable whenever possible. It would bring development to all countries, resilience in global supply chains and stronger international cooperation. A **risk-based diversification** of supply chains is welcome if it does not mean resorting to forced 'decoupling' or forced 're-shoring'. The vast majority of trade does not pose a challenge and a targeted approach in any case of imbalances is key.
7. The EU should **address market distortive policies** actively in a targeted manner to maintain or restore a level playing field in the EU Single Market and with third countries, while minimising the red-tape for companies. The EU should screen foreign investments in strategic sectors, implement new tools like the Foreign Subsidies Regulation and deploy classic trade defence measures (anti-dumping and anti-subsidy actions), all following WTO rules.
8. The deployment of various **European trade defence instruments** vis-à-vis China has to be coherently coordinated by the European Commission, while ensuring adequate internal capacities. The EU has to consider potential negative spillover effects on other sectors and other unintended consequences. The broadening toolbox of defensive instruments has to be complemented by significant measures to **enhance the EU's own competitiveness** in strategic sectors, above all by deepening the Single Market. Only economic strength and cutting-edge technology will give the EU the necessary leverage to engage in trade relations with China on an equal footing.
9. An **escalation must be avoided** and in-depth **negotiations with China** are crucial. Trade restrictions should be seen as last resort if other means to rebalance the situation do not yield expected results. It is important to consider that different sectors face different challenges and therefore require tailored approaches. Close, ongoing coordination with the relevant industries remains vital.